Remarks at the Multilateral Development Banks Meeting On The HIPC Initiative

by
James D. Wolfensohn
President
The World Bank Group

Washington, DC, April 4, 2000

MR. WOLFENSOHN: Let me say first, thank you Massoud and good morning to everybody. You come at a time when we are under a fair amount of pressure in this building, as a result of quite a confluence of forces. As you know, within a week we will have demonstrators here in what they call Seattle Part 2, the aim of which is to demonstrate that certainly the Bank and the Fund, and multilateral institutions in general, have no place in the equitable development of the world.

It is not a particularly authentic group of demonstrators. It is led by Ruckus, which is a group whose purpose is to disrupt meetings, and they go to training camps for a couple of weeks and learn how to climb buildings and how to create demonstrations, and then they distribute on the internet the location of the next party, which is now in Washington.

But, sadly, there are some other events which are occurring, including a demonstration by the labor unions about the WTO and China; a second demonstration about debt, which will be on Capitol Hill; and then next weekend, the meetings here in Washington.

Now, why do I tell you that? I tell you that because in it all is a constant reference to debt. It is a mix-up of Jubilee 2000. It is the feeling that the rich have it over the poor, and that the way to put everything right is by demonstration and by immediate debt forgiveness.

Now, in the middle of all that, what we have got to do, of course, is to try and keep our heads, and try and talk reason. But it is very difficult to talk reason when people are out on the barricades, and when our political masters are anxious to be responsive. So quite a number of our ministers want to go out and talk to them, and we are already getting letters from ministers which are less supportive than more supportive on the speed and effort of all the multilateral institutions in debt forgiveness.

What I am trying to do with my colleagues is to prepare for the spring meetings, during which we hope to get across to the finance ministers that while HIPC I was a burden, HIPC II is an enormous challenge which will cost $28 billion present value in total, of which $14.1 billion is from multilateral creditors.
As for the World Bank group, the cost is at $6.3 billion, leaving $2.3 billion to the IMF and the remaining $5.5 billion to other MDB’s. That is a huge burden for us, possible only if we can write off the debt to the Bank of more than $1 billion by taking it out of our earnings over a period of five years, although our capital is limited. Also, we have the right to forgive debt in IDA up to the level of $80 billion if we want to, which is our outstanding debt, because we do not have to repay that.

The only problem is that if we do that, we do not have any more money coming in to lend out to IDA. And so the short term answer for us is to say, "Right, we will write off," what is it, "$5.6 billion in IDA" (Net Present Value). And there is no doubt we can do that. But the problem with that is that then you do not have repayments, on the basis of which the IDA deputies were planning their future expenditures on loans.

So for us it is a problem, but it is a problem which is manageable, but manageable only on the basis of deeply wounding IDA in the future, because you do not get money back to lend out. So it delays the problem for us, in that future loans of IDA will then need to be funded by the IDA donors. However, it is not an immediate crisis, it is a future crisis.

So we can handle it, which is why all our attention has been given to raising trust fund monies for people other than ourselves, because we do not face the crisis that they do. And so we have been out and we have tried to raise the money, and we have got, give or take, $2 billion, which is available to all of you, as we seek to distribute it. The critical sum at stake is the U.S. contribution of $600 million plus, the first $200 million of which would be for the next year, and which broadly affects the Americas, whereas the European monies broadly affect the African countries.

And, crucial in all of this is the demonstration that is taking place on the Hill this week, which might be of some use to us in getting additional funding for the contribution of the $600 million, so that we could have $200 million this year for funding the Americas’ portion of the debt forgiveness package.

All of this is, however, dealing with the next two or three years. And the issue that I am also putting to the ministers, or will be putting to the ministers, is that the ownership of many of your institutions is not with them; it is in fact with developing countries themselves. Therefore, it is not just a question of the wealthy countries putting up capital for existing institutions.

There is the separate question that for many of your institutions your participating shareholders are people that do not have the ready money to be able to build the capital and retain the financial integrity of the institutions. And, therefore, the only way that we can solve that is through contributions to the trust fund from the wealthier countries, to allow for the sustenance of your institutions and the writing off of the debt with some support from the trust fund.
Now, the sad reality is that the ministers as a group seem to be more concerned with the politics than with the financing, and so the rhetoric is all very good but the writing of checks is not up to the level of the rhetoric. And I am going to make myself a nuisance yet again to the ministers this time, in pressing the case of your institutions once more of the urgent need for trust fund support so that financial integrity can be maintained -- starting with the Inter-American Development Bank and then going to the other institutions. I will base my case on the unfairness of calling for global debt reduction while doing nothing about the capital of the institutions.

There are the additional issues of packaging, the focus on poverty and the comprehensive nature of the programs, on which I think reasonable progress is being made. But it seems to me, at the moment, that the focal point -- that must be of concern to you, and is of concern to us -- is less on the holistic nature of how we do it, and tying it into poverty and PRSPs and anything else that they want to put on us. It seems to me that the focal issue at the moment is finance, and that is, for the moment, a reality.

What the ministers I think are insisting is that we all take a look inside our institutions to see how far we can go, and that varies according to institution. As I say, for the Bank, concerning the amount which the Bank IBRD has to forgive, we can probably take it out of earnings over a period of years, while we are at the level of the last summit.

The problem which we face, and which all of us face, is the prospect of the next level, which Jubilee 2000 and others are calling for, which entails 100 percent debt relief. This is very attractive politically, and is being pushed by Jeffrey Sachs and a bunch of others who do not look at the implications on us.

And there the drama of course is that 100% debt relief would push up current debt forgiveness of $14.1 billion (of the $28.2 billion total) from the multilateral creditors -- the level now that we have established with HIPC 2 -- to a total of 43 billion.

Now, $43 billion, spread around this group, is completely impossible in terms of having adequate capital. If this round is already causing problems, then more than doubling it is terminal for many institutions, unless support is given. And so what I have to try and do at these next meetings is to convince the ministers that talk about 100 percent debt relief just for the existing HIPC countries, the 32 countries, without assistance, is not doable.

And then you have the additional problem that if you forgive debt for the 32 countries, then what about all the other countries. If you are changing the basis on which you judge whether a country is HIPC-eligible, what about the next 10 countries or the next 15 countries who just missed the cut-off, and who now say, "Well, look, it's terribly unfair for you to forgive the debt completely of these countries who didn't do very well. We have tried very hard to be good citizens, and now you are going
against us by not including us in this wonderful holiday that you are going to give for the millennium."

Total outstanding claims of all multilateral institutions to 40 HIPCs are at about $70 billion (in nominal terms). So to include nearly eligible countries, then we can double that figure again, at least. And by the time you are finished, everybody will want debt relief, and there will be no recognition that if you ever borrow something, you have to pay it back, which would be very convenient for the borrowers, but not very good for the international financial system.

So we are in the middle of a very curious debate at the moment, in which quite honestly I am trying very hard to get our political masters to understand that the slope is very steep, and that these easy political jumps from HIPC 1 to HIPC 2 to total debt relief are in fact not easy jumps at all. They have huge implications particularly on intermediary organizations such as ours.

So I will be fighting the good fight in the next two weeks. You will see a lot of rhetoric in Washington about debt, about the international institutions, about 100 percent relief that is required. And I think I understand the case. I am very anxious to hear from you as to whether you think I do or not, or what are the implications that you would like me to represent. But I will be doing my best in the next two weeks to try and get the ministers to understand.

One of the things that I have been thinking about is to try and get this group to take a stand after the meeting by putting together a signed and agreed case to put forward and distribute to the ministers, so that your voice is heard. I think that would be a very useful both political and practical action to take. And in fact each of you may wish to make a special case for your institution -- so that we have on record the absolute limits of this debt forgiveness program for institutions that have based their future on the fact that they will be repaid, not a whimsical idea in the banking business. No bank can withstand somebody coming in and saying, "Forgive the debtors."

So I believe that after this meeting, firstly my colleagues will report to you. Secondly, I think that it is important that we get a more present voice from this group, and you can decide whether you can do it jointly or individually.

But surely I think more political pressure and representation, through your ministers and directly, to your shareholders and in particular to the donor countries, the wealthy countries, is something that we should probably be planning for the period between the spring meetings and the annual meetings in Prague. So I would come back to you on that, and would strongly recommend that in addition to everything else we are doing, that we consider a more forceful campaign, so that the voice is heard and so that the line is drawn.

I would be very happy and anxious to hear your comments and questions and observations as to whether I have the story right or whether I have it
incorrect, and whether there is any guidance you can give me on what I might do at the spring meetings.